

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF LESLIE COUNTY)	
TELEPHONE COMPANY, INC., FOR)	CASE NO. 6454
A RATE INCREASE)	

SUPPLEMENTAL ORDER

On August 13, 1981, the Economic Recovery Tax Act of 1981 ("ERTA") became law. ERTA changes the tax law as it relates to public utilities and hence as it relates to Leslie County Telephone, Inc., ("Leslie County"). Among the changes, ERTA does the following:

Establishes an accelerated cost recovery system ("ACRS") which allows a faster write-off of certain assets without regard to salvage value; and

Establishes an expanded normalization requirement for the deductions available with respect to ACRS property.

The expanded normalization requirements are described in §168(e)(3) of the Internal Revenue Code ("IRC"). The practical impact of the normalization requirement is that utilities currently using flow-through accounting for accelerated depreciation must file new rates adjusted to reflect normalization accounting in order to be eligible for the benefits of ACRS. Utilities such as Leslie County, whose current rates adequately recover the cost of service under

normalization accounting, must determine if the approved method meets the requirements of §168(e)(3) of the IRC.

Moreover, Section 209(d) of ERTA provides that regulatory approval of a normalized method of accounting consistent with ERTA must be obtained in the first rate Order subsequent thereto or no later than January 1, 1983, for the utility to meet its requirements and to qualify for the maximum income tax deductions thereunder. Because it did not have a rate case pending before the Commission, Leslie County on December 7, 1982, filed an application requesting that a supplemental Order be issued by the Commission.

Findings and Orders

The Commission is of the opinion and finds that:

1. Leslie County should be authorized to use, for both book and rate-making purposes, a normalized method of accounting for the income tax effects of using accelerated depreciation methods such as ACRS on its income tax return and that this authorized method of accounting meets the normalization requirements of §168(e)(3) of the IRC;
2. Leslie County should be authorized to use, for both book and rate-making purposes, a normalized method of accounting for the use of investment tax credits;
3. The rates approved in this case provide revenues sufficient to recover the cost of service predicated upon the

use of the authorized normalization methods listed in 1. and 2.;

4. Leslie County should continue to be authorized, for both book and rate-making purposes, to use ACRS for calculating depreciation for income tax purposes and to use a normalization method of accounting, as defined and prescribed in ERTA, and (subject to Commission review) as defined and prescribed in any rulings or regulations which might be promulgated to further explain or define the provisions of ERTA: and

5. Leslie County should continue to be authorized to use, for both book and rate-making purposes, the normalization method of accounting for investment tax credits as contemplated in ERTA.

IT IS THEREFORE ORDERED that Leslie County be and it hereby is authorized to use, for both book purposes and rate-making purposes, a normalized method of accounting for the income tax effects of using accelerated depreciation methods such as ACRS on its income tax return and that this authorized method of accounting meets the normalization requirements of §168(e)(3) of the IRC.

IT IS FURTHER ORDERED that Leslie County be and it hereby is authorized to use, for both book and rate-making purposes, a normalized method of accounting for the use of investment tax credits.

IT IS FURTHER ORDERED that Leslie County will continue to be authorized, for both book and rate-making purposes, to use ACRS for calculating depreciation for income tax purposes and to use a normalization method of accounting, as defined and prescribed in ERTA, and (subject to Commission review) as defined and prescribed in any rulings or regulations which might be promulgated to further explain or define the provisions of ERTA.

IT IS FURTHER ORDERED that Leslie County will continue to be authorized to use, for both book and rate-making purposes, the normalization method of accounting for investment tax credits as contemplated in ERTA.

Done at Frankfort, Kentucky, this 22nd day of December, 1982.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary